

NCUA News

411 House Members Vote Yes to CU Legislation

The House of Representatives passed H.R. 1151, the *Credit Union Membership Access Act* April 1 by a vote of 411 to 8. The full House vote came just six days after the House Banking Committee signed off on the legislation.

The bill permits credit unions to have single, community, and multiple common bond charters and allows for multiple groups of up to 3000 people to be added to credit unions.

During March, NCUA, credit unions, trade associations, state regulators, banks, and the Treasury Department testified before the House and Senate Banking Committees on credit union field of membership issues.

Richard Carnell, Treasury Department Assistant Secretary for Financial Institutions, told lawmakers at both hearings that credit unions offer their members a sense of affinity that extends throughout their financial operation. He said that credit unions should be permitted to serve their membership, make member business loans, add additional groups, and they should not be burdened with onerous CRA regulations.

"All credit union parties acted in good faith in the interpretation of the FCU Act and acted legally as they understood it (the law)... Credit unions need more freedom in this regard than was conceived in 1934... 500 members per credit union is unrealistically low to determine viability, just as it is unrealistic to expect every member of a viable credit union to share one common bond," Richard Carnell told House Banking Committee members March 11, 1998.

Expanded considerably from its original brief form, H.R. 1151 would:

- Permit multiple group expansions of 3000 or less, and allow NCUA to waive

that ceiling under certain circumstances;

- Grandfather existing groups and members;
- Permit multiple-group credit unions to add underserved areas to their field of membership;
- Require NCUA to develop prompt corrective action comparable to that applicable to banks and thrifts under section 38 of the Federal Deposit Insurance Act.
- Subject credit unions of \$10 million or more to GAAP accounting;
- Subject credit unions to a CRA-like community service review that NCUA would be required to develop within 12 months of enactment of H.R. 1151;
- Require NCUA to evaluate its member business loan rule and provide Congress with a report on this subject in one year;
- Require NCUA to adjust the 1 percent insurance fund deposit semiannually for credit unions with over \$50 million in assets;
- Prohibit the directors and officials of credit unions that convert to mutual



Senate Banking Committee Chambers – NCUA's Board, Chairman Norman D'Amours, Dennis Dollar and Yolanda Wheat prepare to testify March 26 before the Senate Banking Committee on the need to quickly adopt legislation to retain current members and allow credit unions to serve multiple groups.

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HIGHLIGHTS

Briefs	2
Board Actions	3
Y2K Testing Phase	4
Realignments	5
CU Policies	6

thrifts from profiting from a subsequent conversion to a stock institution for five years; and

- Give Congress the ability to review and potentially veto rules NCUA promulgates under this legislation that define "immediate family" and "local community, neighborhood or rural district."

Members of Congress who expressed their support for the credit union bill during the 40 minute debate on the House floor before the vote said –

continued on page 2

Chairman D'Amours On Passage Of *The Credit Union Membership Access Act* By The House of Representatives

April 1, 1998 — "In general, I am pleased by the contents and swift passage of HR 1151 by the House. The overwhelming support expressed by members of Congress through their votes and oral statements make me confident that this process can produce a good result.

"We now look forward to working with the Senate to ensure that this momentum is continued."

News Briefs

- **D'Amato Asks Court to Delay Decision** — Senate Banking Committee Chairman Alfonse D'Amato and fellow banking committee members announced at the credit union hearing on March 26 that they had sent a letter to U.S. District Court Judge Thomas P. Jackson asking him to delay action on the Supreme Court decision because Congress intends to act to preserve credit union membership.
- **Roth & Education IRAs** — By notation vote, the NCUA Board approved an interim final rule allowing federal credit unions to serve as trustees or custodians of Roth and Education IRAs. Credit unions have 60 days to comment on the technical changes to NCUA Rules and Regulations Part 724.
- **Legislation Expands NCUA Authority** — The President signed legislation last month that would expand NCUA's authority over vendors and CUSOs. The action will assist NCUA to ensure that credit unions become Y2K compliant.

NCUA News

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

Norman D'Amours, Chairman
Yolanda T. Wheat, Board Member
Dennis Dollar, Board Member

Information about NCUA and its services may be secured by writing to the Office of Public and Congressional Affairs, or by calling 703-518-6300. News of what is happening at NCUA is available by calling 800-755-1030 or 703-518-6339.

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House Votes Yes

continued from page 1

Steve LaTourette (R-Ohio) "This is a wonderful day... H.R. 1151 ensures credit union access to America's millions and millions of small businesses.. the principle source of new jobs. Had the Congress let the Supreme Court ruling stand...we would have been harming a huge chunk of America's working force. H.R. 1151 should be viewed as pro consumer and pro competition, both of which are good things."

Paul Kanjorski (D-Pa.) - The Credit Union Access Act "is just good solid legislation by a House of Representatives that on April 1, April Fools Day, are going to prove that they are not fools. This is one of our finest hours... It creates a framework under which they (credit unions) can exist and continue to grow and serve their membership and serve America."

Gerald Solomon (R-NY) - "Credit unions are oriented to people rather than profits. The average credit union is less than a tenth the size of the average bank. This is a battle between rich bankers and working Americans... let us never forget it. Both in court and in Congress, banks are trying to stamp out credit union competition and deny millions of American consumers access to affordable credit union financial services. Credit union members are so worried because they are owners themselves."

David Bonior (D-Mich.) - "I love my credit union... because of all the financial institutions...I have had to deal with in my life, the credit union has provided me with the best service at the fairest rates... I got my washing machine, my dryer, my car, my kids' education all from my credit union. And they did it with style, they did it with grace, they did it with good rates, and they did it within the sense of community."

Bernie Sanders (Independent-Vermont) - "At a time of increasing bank fees, increasing ATM fees, increasing credit card fees, increasing minimum balance requirements, and the loss of many locally-owned banks to large multi-billion-dollar corporate institutions, credit unions today are more important than they have ever been."

Bob Filner (D-Calif.) - "I want to thank the thousands and tens of thousands

of credit union members around the country who got politically involved, talked to their Congress people, wrote letters to their newspapers, and got on the talk shows. The credit union members around this country did an incredible job of educating Members of Congress. That effort will be rewarded with a vote today."

Sheila Jackson-Lee (D-Texas) - "What a great day for democracy. Credit unions represent democracy at work...(This bill ensures) that credit unions are part of the financial structure of America."

John LaFalce (D-NY) - "Within the confines of the credit union bill, we have to preserve the best of the past going forward into the future. I think that is what we have done in this bill... This bill preserves the integrity of the credit union concept."

Banking Committee Chairman Jim Leach (R-Iowa), the final speaker before the vote said, "I support a strong and competitive financial service sector. What is best for the American people is competition and choice." Chairman Leach also said that written "in huge letters in the basement of a credit union in Iowa City is a quote from one of Iowa's heroes. 'People must come before profit'" were the words Heisman Trophy winner Nile Kinnick wrote home just days before his death in WWII. "That is what the credit union movement is all about," Leach said.

The House and Senate recessed for a two week spring break April 2. Lawmakers will return to Washington April 21. Senate Banking Committee members are expected to begin deliberations on the bill the week of April 27.

Region I Telephone Update

The NCUA Region I, Albany office telephone numbers changed in March to:

518-862-7400
 518-862-7420 (fax)

BOARD ACTIONS

Freedom of Information Amendments Adopted

At its March 19 meeting in Alexandria, the NCUA Board voted to implement the Electronic Freedom of Information Act Amendments of 1996, modifying Freedom of Information Act regulations to streamline procedures and expedite requests.

The new provisions place requests in a multi-track system – fast track, expedited track, or regular track — based on the type of request and the accessibility of information. The new rule clarifies what to include in FOIA requests to ease processing and it provides guidance for obtaining records located in the Office of the Inspector General.

FOIA requests can now be submitted by e-mail to FOIA@ncua.gov.

Charter and Insurance Activity

Charter Conversions

Multiple-group **Amarillo Federal Credit Union** gained authority to convert to a community-based charter. The \$63 million institution sought the conversion in order to provide financial service to the community of Greater Amarillo, which consists of Randall and Potter Counties.

The \$24 million multiple-group **Lubbock Federal Credit Union**, Texas, gained NCUA Board authority to convert to a community charter serving Lubbock County and adjoining low-income Hockley County.

Security One Federal Credit Union, a \$40.4 million multi-group institution located in a low-income section of Arlington, Texas, received authority to convert to a community charter. The credit union can now serve the community of Arlington, Texas, encompassing Dalworthington Gardens and Pantego.

Empire Corporate FCU, Albany, NY, secured NCUA Board approval to add uniformity to the field of membership of each state it currently serves.

Southeast Corporate FCU, Tallahassee, FL, gained NCUA Board approval to terminate a 1993 waiver allowing the corporate to offer employees limited financial services and to adopt the natural person membership limitations stated in Part 704 of the NCUA Rules and Regulations.

Insurance Conversions

The \$7.9 million state-chartered **Coeur d'Alene Teachers Credit Union**, Coeur d'Alene, Idaho, gained NCUA Board approval to convert from federal to private insurance coverage. A majority of its members have voted to sanction the insurance conversion.

NCUA Board Approves Interim 18-Month Exam Cycle For Healthy CUs

The National Credit Union Administration Board voted in March to implement an 18-month supervisory examination cycle for healthy federal credit unions in an effort to ensure that the agency maintains maximum flexibility in assigning staff to assist credit unions with the complexities of their Year 2000 computer compliance.

"This change will allow us to allocate adequate agency resources to help credit unions meet the critical challenges of Year 2000 compliance," noted NCUA Chairman Norman E. D'Amours.

Regional directors have been authorized to extend the supervisory exam cycle for federal credit unions above \$5 million in assets that received a CAMEL rating of 1 or 2 during their past two safety and soundness examinations. The extension period, which will end in June 1999, will not exceed 18 months between exams.

While NCUA extends the annual supervisory exam in credit unions that do not pose significant safety and soundness concerns, examiners will visit all federal credit unions during 1998 to discuss and review Year 2000 issues.

Meanwhile, regional staff also have the option of performing an on-site safety and soundness exam if off-site surveillance indicates a decline in a credit union's financial or operational condition.

NCUA Appoints Temporary CEO and Directors

The National Credit Union Administration Board voted in a closed session March 31, 1998, to appoint experienced NCUA staff members to temporarily fill three top positions.

Edward P.

Dupcak is NCUA's acting executive director. **J. Owen Cole** is acting Investment Services director in Dupcak's absence. **Marilyn G. Gannon** is acting Human Resources director.



Edward Dupcak

Commenting on the appointments, Chairman Norman E. D'Amours said, "Each person the Board selected has demonstrated capable leadership at NCUA. I'm gratified that the agency has a number of executives with the depth of experience that allows us to comfortably rotate senior staff. The Board's action gives proficient, experienced staff members such as Ed, Owen, and Marilyn the opportunity to enrich their management skills with challenging assignments."

Ed Dupcak became acting executive director of NCUA for 60 days effective April 1. As acting executive director, Dupcak is chief operating officer responsible for the day-to-day operation of the entire agency.

During the past three years, Dupcak has been director of the Office of Investment Services (OIS) providing NCUA with knowledge and expertise in investment and portfolio management.

His prior position was associate regional director of Region II in Alexandria, Va. As ARD, Dupcak managed the region's field examination and supervision program, including resolving safety and soundness issues at problem credit unions.

Dupcak joined NCUA in 1974. He served as an examiner in New York and

continued on page 5



Year 2000 CUs Approach The Testing Phase

The *awareness* and *assessment* phases of the Year 2000 (Y2K) project should be complete and credit unions should now be in the *renovation* phase.

Many credit unions are in various stages of the *renovation* phase. Vendors have classified some data processing systems as Y2K compliant, other credit unions expect an imminent vendor upgrade, and numerous credit unions await external, third party (such as the ATM, ACH, credit bureaus, etc.) interfaces reaching Y2K compliance. For these credit unions, completion of the *renovation* phase depends on the progress made by the Information Systems Vendor (ISV) and other third party vendors.

After completing the preceding, many credit unions have entered a highly challenging portion of their Year 2000 project — planning for, and beginning the *testing* phase and evaluating *contingency plan* options and trigger dates. Let's consider these two issues.

Testing Phase

Many credit unions and vendors are now seriously thinking about how to adequately test critical systems for Y2K compliance. First, keep in mind that there are two general types of systems testing: component testing and integration testing. Also, remember that all critical systems must be tested. Here are some suggestions for the *testing* phase:

- *Credit unions should not start testing individual systems or components until they are Y2K ready.* Also, credit unions should not start testing the system as a whole (integrated testing) until all *important* (i.e., utilized) components of the entire system, are Y2K ready. Don't waste time testing something that isn't Y2K ready.
- *Begin by testing each component of a system.* This process should begin as the credit union receives/purchases Y2K ready components. After each component is tested, the credit union should test the system as a whole.
- *How does a credit union adequately test its various systems?* This is where communication with vendors is extremely important. In fact, due to some of the dangers involved with testing, credit unions should not test systems without first contacting their vendors.
- *For testing system components,* the vendor should determine how to test each component for Y2K compliance. Also, credit unions should consult other information sources, such as the Internet, for methods to test some of the more common aspects (such as PCs) of many computer systems.
- *For integration testing,* credit unions will likely have to rely heavily on the ISV for methods to properly, thoroughly test the system as a whole. Another important part of integration testing is for the credit union to have a comprehensive list of all types of products and services (and associated transactions) that the credit union offers. This will help determine the extent and type of testing.
- *Some ISVs are creating test kits for their clients* that will address much of the above. The support an ISV provides for a credit union's Year 2000 testing will no doubt play an important part in the credit union's decision to stay with or change vendors. For external interface testing, many of the larger, external third party vendors (such as the Federal

Reserve and ATM networks) plan to organize testing among participants and provide further testing information. ISVs and external third parties will be providing more testing information as they get ready to release Y2K ready systems.

Credit unions can get testing assistance from contractors, other credit unions, vendors, and other sources. In some rare cases where types of information systems are identical, even down to the hardware, shared testing may be acceptable.

Contingency Planning

Credit unions must have adequate contingency plans for all critical systems. Basically, the contingency plan delineates what the credit union will do if a particular system is not Y2K ready by a certain time frame. An important aspect of contingency planning is knowing what the credit union's options are ahead of time. For a credit union's primary data processing system, this means knowing what Y2K compliant products are available that are capable of meeting the credit union's needs, what the cost of conversion would be, and how long it would take to convert. The credit union needs to take the following into consideration when developing and implementing contingency plans:

- Some ISVs have indicated a limited capacity to support conversions and mergers. A conversion (or merger) from one vendor's system to another may require assistance from both vendors. When using vendor estimates to anticipate cost and time needs to convert data processing systems, keep in mind that the closer we get to the Year 2000, the greater the cost to convert and the more time it will probably take due to limited vendor resources. Another consideration is that the vendor may simply run out of capacity if the credit union waits too long to implement its contingency plan. Also, ISVs are already being highly selective about new clients, which may limit options.
- Credit unions serviced by ISVs that have difficulty providing information, or if the ISV is indicating anticipated delivery dates for compliant systems or upgrades beyond September 1998, should factor

continued on page 6

Walters Heads Realigned California Office, James Named Regional Director

After nearly three years as the Region II Director, Jane Walters is moving to California effective May 4 to fill the post left vacant by recently retired Region VI Director Daniel Murphy. Tawana Y. James will become the new Region II director in Alexandria, Va., May 4.

"Dan Murphy has done a superb job at NCUA. He leaves the agency with my highest regards and acclaim from many for scores of accomplishments," Chairman Norman E. D'Amours said at Murphy's farewell reception March 19, 1998.

Walters Directs Region VI

By unanimous vote, the NCUA Board selected Jane Walters to head the Region VI office.

"Region VI is a high profile office that oversees many of the largest, high-tech credit unions in the country," Chairman Norman E. D'Amours noted. "Jane Walters' experience and leadership skills will be a good fit with the team of strong, experienced managers



Jane Walters

on-site in our California office. This move continues NCUA's practice of rotating regional directors periodically, allowing them to gain additional experience and bring new perspectives to other regions. It will be good for her and good for the people and credit unions in Region VI."

When Walters' moves to Region VI, the associate regional directors (ARD) in California will exchange duties.

Robert E. Blatner will switch from ARD of Operations to ARD of Programs responsible for the Region VI field program. Current ARD of Programs Rick Ravine will become ARD of Operations responsible for supervising the region's divisions of Supervision, Insurance, Administration, and Special Actions.

James Named Region II Director

When the Board unanimously selected Tawana Y. James as NCUA's new-



Tawana James

est regional director, Chairman D'Amours said, "I have worked with Tawana James for four years. I know her to be a great choice to become an NCUA regional director. She is an innovative manager with good judgment and a commitment to excellence. Over the past few years she has become one of NCUA's top professionals. I commend Tawana as she moves forward based on solid achievements."

When James becomes director of the Region II office in Alexandria, Va., she will be responsible for coordinating the examination and supervision activities of credit unions in Delaware, the District of Columbia, Maryland, New Jersey, Pennsylvania, and Virginia.

NCUA Appoints CEOs

continued from page 5

Washington, DC, and moved into the headquarters Central Liquidity Facility in 1979. He also served as the investment officer and the director of Risk Management in the Office of Examination and Insurance. In April 1995, Dupcak was named director of the Office of Investment Services.



J. Owen Cole

during Ed Dupcak's absence.

As acting OIS director, Cole administers the regional investment specialist program and provides technical support to the Office of Corporate Credit Unions on investment and asset liability man-

agement issues. He is also responsible for analyzing investment products, counseling examiners and credit unions via the Investment Hotline, and for providing technical advice in the development and implementation of investment regulation.

Since joining NCUA, Cole has been instrumental in developing and implementing NCUA's investment and corporate credit union regulation and training. He also participates on-site with corporate examiners to support the qualitative assessment of investment and asset/liability policies, procedures and activities at corporate credit unions.

Marilyn G. Gannon was selected to serve as acting director of the Office of Human Resources (OHR) for 60 days effective April 6. Her appointment be-



Marilyn Gannon

gan with the departure of Gloria Harris, who completed her 120-day detail at NCUA.

As acting OHR director, Gannon is responsible for NCUA's human resources management program, which includes recruiting, retaining and motivating a highly competent workforce.

At the time of this assignment, she was a senior personnel specialist, with expertise in compensation, job evaluation, staffing, automated personnel records and policy. Gannon joined NCUA in October 1982 as the chief of staffing and classification in OHR. She was selected as a supervisor of the year in 1988 and 1991 and has received several performance awards.

Her federal career began in 1975 with the Department of Justice. She held other personnel positions with the Social Security Administration and the Patent and Trademark Office. Before joining the federal government, Gannon was a math teacher, school counselor and association manager.

Y2K

continued from page 5

into their contingency plan and decision-making process the additional risk this scenario represents.

- Some vendors have indicated that the closer we get to the Year 2000, the more they will insist on assistance from the credit union in the conversion or merger process. ISVs and credit unions that have gone through data processing conversions in the past, indicate that it typically takes anywhere from 3 to 6 months for a conversion under normal circumstances. Also, the time to convert is inversely related to the conversion cost to the credit union as determined by the amount of assistance provided by the credit union in lieu of using the vendor's resources and staff.

Testing Ensures Accuracy

In summary, the only way to ensure that systems operate correctly is to test them. Credit unions must determine how and what they need to test. In addition, credit unions must work closely with their

vendors before testing begins to determine how to set up systems for testing. Each credit union must recognize that ultimately it is responsible for ensuring its systems are Y2K ready. This responsibility cannot be shifted or transposed to the vendor, third party, or other party.

In regard to *contingency* planning, credit unions need to consider the various systems available on the market, the credit union's internal processing and service needs, the time, cost, and resources needed to convert to a particular system, and the availability of vendors (both the current and new vendor, if changing vendors) to assist in the conversion.

As a final note, the Federal Financial Institutions Examination Council (FFIEC) will be issuing a testing guidance paper in the near future. NCUA is a member of the council and is participating in that project. When completed, NCUA will forward the guidance paper to all federally insured credit unions. Additionally, NCUA is planning a vendor's conference in May to work with ISVs to formulate acceptable testing strategies and a Letter to Credit Unions sharing that information.

Former Kansas Regulator Recognized by NCUA

John Smith, the former Kansas State Regulator and board member of the National Association of State-Chartered Credit Unions (NASCUS), received NCUA's Roy F. Bergengren Award for his outstanding contributions to the credit union movement.

Presented at the NASCUS Conference in Portland, Ore., March 16, the award recognized Smith for promoting open communication yielding a strong cooperative relationship between state supervisory authorities and NCUA. He provided outstanding leadership in promoting stronger, more explicit regulation and supervision of the corporate credit union system. NCUA officials also found him to be innovative and results oriented and willing to make difficult decisions based solely on the best interest of natural person credit unions.

"Both regulators and credit unions owe you a debt of gratitude," Chairman D'Amours told him when making the award presentation.



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